SUMMARY OF FISCAL YEAR 1984 BUDGET AND PROPOSED REVENUE INCREASES

Prepared for the

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Summary of Fiscal Year 1984 Budget and Proposed Revenue Increases

The attached tables summarize the fiscal year 1984 congressional budget resolution, the Administration's most recent (April) budget proposals, and several revenue increase proposals.

Table 1 summarizes the recently passed congressional budget resolution for fiscal year 1983 through 1986. Baseline revenues, outlays and deficits refer to what these aggregates would be if there are no changes in policy. For revenues, the baseline estimates what revenues would be if there are no changes in present tax law (i.e., expiring provisions are allowed to expire). For nondefense outlays, the baseline includes no change to existing entitlement programs and a continuation of discretionary programs at present levels, generally adjusted for inflation. For national defense, the outlay baseline refers to a continuation of the multiyear defense plan embodied in the fiscal year 1983 defense budget.

The FY 1984 budget resolution introduces a new concept called the "reserve fund." The reserve fund includes spending for several new programs not yet enacted by Congress. The theory of the reserve fund is that, if these programs are enacted, the outlay ceiling in the budget would rise to accommodate them; but if they are not enacted, the money would not be available for any other purpose. Thus, Congress has, in effect, enacted two budget resolutions--one with and one without the reserve fund spending. Table 1 shows the budget aggregates both ways.

Table 2 shows the Administration's April budget proposal reestimated under the economic assumptions used in the congressional budget resolution.

Table 3 shows the revenue effects of the revenue increase proposals made by the Administration in its budget and the tax freeze proposed by Chairman Rostenkowski, which would repeal all tax reductions scheduled to take effect after 1983. A description of these tax reductions is attached.

Table 1

Summary of Fiscal Year 1984 Budget Resolution

	Fiscal year ($ billions)			
	1983	1984	1985	1986
Revenues:				
Baseline revenues	604.4	667.6	735.5	789.8
Proposed revenue change	-0.1	12.0	15.0	46.9
Revenue floor	604.3	679.6	750.5	835.8
Outlays:				
Baseline outlays	806.4	850.7	919.4	986.0
Proposed outlay changes (without reserve fund outlays)	1.0	-1.2	-12.6	-23.1
Proposed outlay changes (with reserve fund outlays)	6.5	8.2	-7.8	-19.4
Outlay ceiling (without reserve fund outlays)	807.4	849.5	906.8	963.0
Outlay ceiling (with reserve fund outlays)	812.9	858.9	911.6	966.6
Deficit				
Baseline deficit	-202.0	-183.1	-183.9	-196.2
Proposed deficit (without reserve fund outlays)	-203.1	-169.9	-156.3	-127.2
Proposed deficit (with reserve fund outlays)	-208.6	-179.3	-161.1	-130.8

Source: Congressional Budget Office

Table 2

Administration April Budget as Reestimated by CBO

	Fiscal year ($ billions)			
	1983	1984	1985	1986
Revenues				
Baseline revenues	604.4	667.6	735.5	789.8
Proposed changes	--	2.3	5.4	46.0
Revenue total	604.4	669.9	740.9	835.8
Outlays				
Baseline outlays	806.4	850.7	919.4	986.0
Proposed changes	1.2	-9.9	-16.9	-18.5
Outlay total	807.5	840.8	902.4	967.5
Deficit				
Baseline deficit	-202.0	-183.1	-183.9	-196.2
Proposed deficit	-203.1	-170.8	-161.5	-131.7

Source: Congressional Budget Office

Table 3

Revenue Increase Proposals

	Fiscal year ($ billions)				
	1984	1985	1986	1987	1988
Administration proposals					
Contingency tax					
$5/bbl tax on oil	--	--	20.9.	21.0	21.0
5% corporate income tax surcharge	--	--	4.1	5.1	5.5
5% individual income tax surcharge	--	--	16.6	18.4	20.0
Total contingency tax			41.6	44.5	46.5
Cap on employer health premiums	2.1	4.1	5.4	6.6	8.3
Total Admin. proposals	2.1	4.1	46.0	51.1	54.8
Rostenkowski tax freeze					
Repeal indexing	--	6.2	16.6	27.8	39.6
Charitable deduction for nonitemizers	*	0.5	2.5	4.1	--
Income earned abroad	*	*	0.1	0.1	0.2
ITC for used property	--	*	0.1	0.1	0.1
2b/d royalty exemption	--	0.1	0.1	0.1	0.1
15% net interest exclusion	--	1.1	3.1	3.4	3.8
ESOPs	--	0.3	0.6	0.7	0.4
Estate & gift tax credit	*	0.5	1.1	1.8	2.6
$5,000 expensing	0.2	0.4	0.4	0.4	0.1
Pension limits	--	--	*	0.1	0.1
Extend cigarette tax	--	--	1.9	1.9	1.9
Extend telephone tax	--	--	1.3	2.2	2.5
25% rate on new oil	*	0.1	0.2	0.2	0.2
60% top estate tax rate	*	0.2	0.5	0.5	0.5
Total freeze	0.3	9.3	28.4	43.4	52.2

Note: The estimates of the Administration proposals are somewhat different than the CBO estimates in table 2.

Tax Reductions Scheduled to Take Effect After 1983

1. Indexing.--The individual income tax brackets, zero bracket amount (standard deduction) and the personal exemption are to be increased along with the consumer price index, starting in 1985.

2. Charitable contributions.--In 1983, taxpayers who do not itemize their deductions may deduct 25 percent of the first $100 of charitable contributions. In 1984, the cap is scheduled to be raised to $300. For 1985, non-itemizers are allowed a deduction for 50 percent of contributions with no cap, and for 1986 they are allowed the full charitable deduction. After 1986, the law reverts back to the pre-1981 rules which permit no charitable deduction for nonitemizers.

3. Foreign earned income.--The maximum amount of income earned abroad excluded from taxable income is scheduled to increase from $80,000 in 1983, in $5,000 annual increments, to a permanent level of $95,000 in 1986.

4. Expensing.--The amount of personal property which businesses may elect to expense each year is scheduled to increase from $5,000 in 1983 to $7,500 in 1984 and 1985 and to $10,000 thereafter.

5. Investment credit for used property.--The maximum amount of used property eligible for the investment credit is scheduled to increase from $125,000 to $150,000 in 1985.

6. Net interest exclusion.--Starting in 1985, individuals will be able to exclude 15 percent of interest income to the extent such income exceeds certain interest deductions, up to a maximum exclusion of $450 for single persons and $900 for married couples.

7. Limits on pension plans.--The limits for both defined benefit and defined contribution pension plans are scheduled to be indexed for inflation in 1986.

8. Employee stock ownership plans.--The tax credit for employer contributions to an employee stock ownership plan (ESOP) is scheduled to increase from one-half of one percent of payroll in 1983 and 1984 to three-fourths of one percent in 1985. The ESOP credit expires at the end of 1987.

9. Estate and gift tax credit.--The unified credit against the estate and gift taxes is scheduled to increase such that the amount of cumulative lifetime wealth transfers exempt from these taxes increases from $275,000 for decedents dying in 1983 to $325,000 in 1984, $400,000 in 1985, $500,000 in 1986, and $600,000 in 1987 and subsequent years.

10. Top estate and gift tax rate.--The maximum estate and gift tax rate is scheduled to be reduced from 60 percent in 1983 to 55 percent in 1984 and 50 percent in subsequent years.

11. Windfall profit tax royalty exemption.--The maximum amount of royalty production exempt from the windfall profit tax is scheduled to increase from 2 barrels per day in 1983 to 3 barrels per day in subsequent years.

12. Windfall profit tax on newly discovered oil.--The windfall profit tax rate on newly discovered oil is scheduled to decline from 25 percent in 1983 to 22.5 percent in 1984, 20 percent in 1985, and 15 percent in subsequent years.

13. Cigarette excise tax.--The tax rates on cigarettes are scheduled to be cut in half (e.g., from 16 cents per pack to 8 cents per pack) after September 30, 1985.

14. Telephone excise tax.--The 3-percent telephone excise tax is scheduled to expire after 1985.